

Local Add-On Sales Taxes: The Rise of Transactions (Sales) and Use Taxes for Cities

The Transactions and Use Tax Law was adopted in 1969 authorizing the adoption of local “transactions and use tax” add-ons to the combined state and local sales tax rate. Over the years the law was amended to provide specific authorizations for various particular cities, counties, special districts and countywide authorities. Prior to 2003, the most common transactions and use tax measures were those for a specific countywide need, most commonly transportation. But since a 2003 change in the law, add-on taxes by cities and some counties for general purposes have become more frequent.

“Transactions and Use Tax” Versus “Sales and Use Tax”¹

Under California law, transactions and use taxes may be approved locally and added to the combined state and local sales and use tax rate. The statewide sales and use tax, currently at 7.25%, includes portions that go to the state general fund, to several specific state funds including some for local allocation and use, and to the cities and counties essentially based on the location of the purchase.²

Transactions and Use Taxes generally apply to merchandise that is delivered in a jurisdiction which imposes such a tax. In practice the tax application and allocation for most retail sales will not differ from the sales and use tax. But there are some differences. Importantly, in the case of a sale or lease of a vehicle, vessel, or aircraft, a transactions and use tax is charged and allocated base on the location in which the property will be registered.

So if the city Jane lives in has a transactions and use tax, she will pay that tax if she purchases a car, even if she makes the purchase in a neighboring county that has no transactions and use tax. If Jane purchases a book in that neighboring county, she would not pay any transactions and use tax, but if she buys the book in her city she would pay her city’s tax.

City and County Transactions and Use Taxes.

In 2003, Governor Gray Davis signed SB566 (Scott)³ which gave every county and every city the ability to seek voter approval of a local transactions and use tax increase under the following conditions:

- the transactions and use tax may be imposed at a rate of 0.25% or a multiple thereof,
- the ordinance proposing the tax must be approved by a two-thirds vote of all members of the governing body,
- if for general purposes, the tax must be approved by a majority vote of the voters in the city or county,
- if for specific purposes, the tax must be approved by a two-thirds vote of the voters in the city or county, and
- the maximum combined rate of transactions and use taxes in any location may not exceed 2%.⁴

Prior to SB566, a city had to seek special legislation in order to adopt a transactions and use tax measure. More than twenty cities received such special authorization. Ten cities currently impose a transactions and use tax under such a special provision (See Appendix One).

Of the 59 cities that currently impose a transactions and use tax, 49 do so under the provisions of SB566, including 14 special taxes and 35 general taxes. Altogether, there are currently 38 general purpose and 21 special

¹ For more detail on rules for the collection and allocation of transactions and use taxes see California State Board of Equalization Publication #44, “Tax Tips for District Taxes” at <http://www.boe.ca.gov/pdf/pub44.pdf> and Publication #105 “District Taxes and Delivered Sales” at <http://www.boe.ca.gov/pdf/pub105.pdf>

² The components of the statewide sales and use tax and their allocation are discussed in some detail in the Board of Equalization’s Publication #28: “Tax Information for City and County Officials” <http://www.boe.ca.gov/pdf/pub28.pdf> and other resources at <http://www.californiacityfinance.com/#SALESTAX>.

³ Chapter 709, Statutes of 2003.

⁴ For example, a countywide transportation tax of 1%, together with a 1% tax of a city in that county total 2%.

purpose city transactions and use taxes. The table below shows the frequency of rates and the uses of the 21 special taxes. Appendix One lists rates, effective dates and legal authorities of the 59 currently approved city transactions and use taxes.

Exhibit 1

City Transactions and Use Taxes

Number of currently approved taxes;
effective as of July 1, 2008

Rate	0.25%	0.50%	0.75%	1.00%
General	6	25	1	6
Special	4*	15	2	0
Special Tax Uses				
Police & Fire	4*	8	2	
Hospital/Medical		1		
Streets/Roads		6		

*Clovis' tax is 3/10%

Election Success of Transactions and Use Taxes

Since 1995, 195 proposals for local transactions and use taxes have been submitted to the voters. Special taxes (earmarked for a specific purpose and requiring two-thirds voter approval) have been more common than general taxes, but the proportion of general tax proposals has been increasing in recent years. Half of the 140 proposals since January 2004, were for majority-vote general taxes.

Among the special taxes, the most common proposed specific use is countywide transportation, but measures targeting libraries, police/fire services and city streets/roads (less than countywide) have also been common. Other uses have included medical services, solid waste collection and disposal, zoo, flood control, jail/corrections, and parks and recreation.

Most proposals have been for countywide programs, but the number and proportion of city proposals has been growing. Just 19 of the 63 proposals prior to 2004 were by cities. Since then, 66% (93 of 140) have been from cities.

Exhibit 2 Transactions & Use Tax Measures

Number of proposals

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Feb'08	Total
General	1	1	0	5	2	5	1	3	0	31	10	22	7	1	89
Special	1	6	2	18	3	8	0	9	4	30	4	29	2	4	120
	2	7	2	23	5	13	1	12	4	61	14	51	9	5	195
City	1	3	0	6	1	3	0	3	2	37	13	29	9	5	112
County/Special Distr	1	4	2	17	4	10	1	9	2	24	1	22	0	0	97
	2	7	2	23	5	13	1	12	4	61	14	51	9	5	195
Special Tax Uses															
Police & Fire			1	3	1					10	2	5	2	3	27
Hospital/Medical		1		1		1				2	1				6
Streets/Roads	1	1		2					2	1	1	4		1	13
Transportation-Countywide				3		4		6	2	10		14			39
Libraries		2		7	2	1		1		4		1			18
Other		2	1	2		2		2		3		5			17
	1	6	2	18	3	8	0	9	4	30	4	29	2	4	120

San Francisco is counted as a county.

City Transactions and Use Tax Elections

Until the passage of SB566, most city transactions and use tax measures were special taxes requiring two-thirds voter approval. With few exceptions, until 2003, most legislation authorized only two-thirds vote special taxes. But general tax proposals are now more common. Of the 70 city majority vote general purpose taxes proposed since 1995, 64 were proposed after 2003, and 37 were successful compared to just four in the years previous.

Among special taxes, all but six of the 42 proposals were either for police and/or fire services or city streets and roads. There has been only one successful city special tax measure for a purpose other than police/fire or streets/roads: the City of Avalon's Hospital and Clinic tax imposed in 2000.

Exhibit 3

City Transactions & Use Tax Measures

	Approved/Proposed														
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Feb'08	Total
General	0/0	0/0	0/0	0/1	0/0	2/2	0/0	2/3	0/0	13/26	7/10	14/20	2/7	1/1	41/70
Special	0/1	0/3	0/0	2/5	1/1	1/1	0/0	0/0	2/2	6/11	2/3	2/9	2/2	3/4	21/42
	0/1	0/3	0/0	2/6	1/1	3/3	0/0	2/3	2/2	19/37	9/13	16/29	4/9	4/5	62/112
Special Tax Uses															
Police & Fire				1/3	1/1					5/9	2/2	1/3	2/2	2/3	14/23
Hospital/Medical		0/1				1/1									1/2
Streets/Roads	0/1	0/1		1/2					2/2	1/1	0/1	1/4		1/1	6/13
Libraries		0/1													0/1
Other										0/1		0/2			0/3
	0/1	0/3	0/0	2/5	1/1	1/1			2/2	6/11	2/3	2/9	2/2	3/4	21/42

San Francisco is counted as a county.

Generally, city majority vote general purpose transactions and use taxes have shown a greater rate of success than countywide measures or city 2/3 vote special transactions and use taxes. Fifty-nine percent (41/70) of the proposed city general measures passed. Even majority-vote general purpose measures by counties show just a three out of 19 passing record since 1995.

Exhibit 4

City Transactions and Use Tax Measures - General Purpose

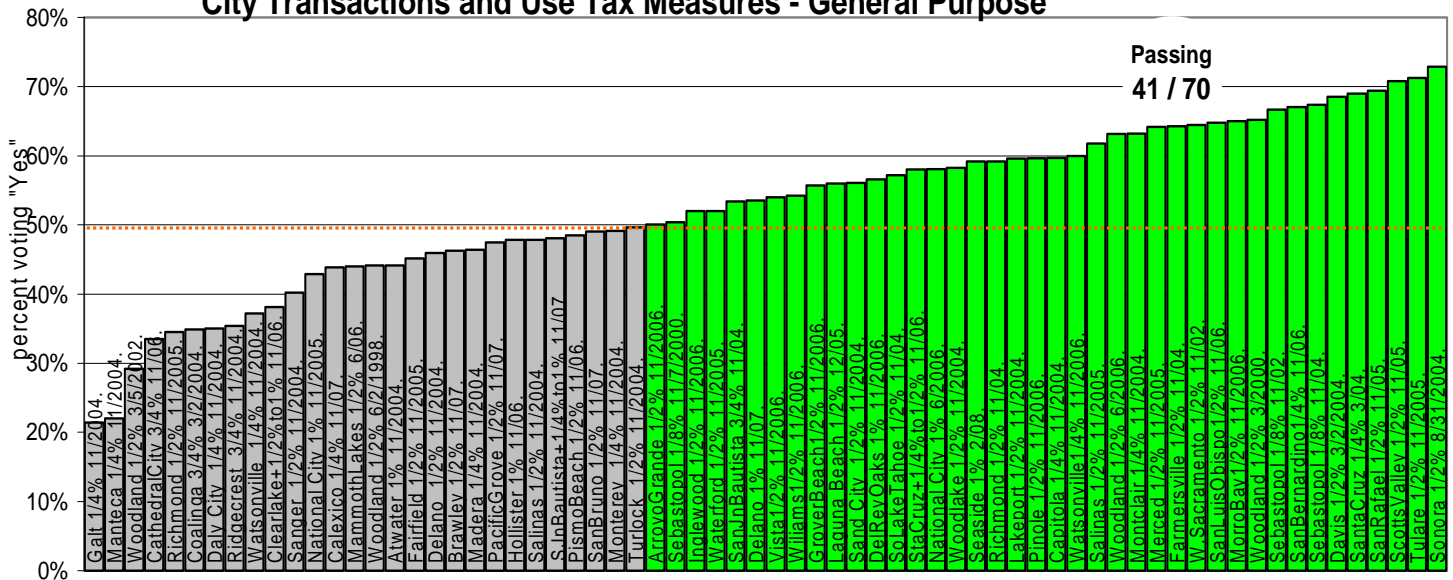


Exhibit 5

County Transactions and Use Tax Measures - General Purpose

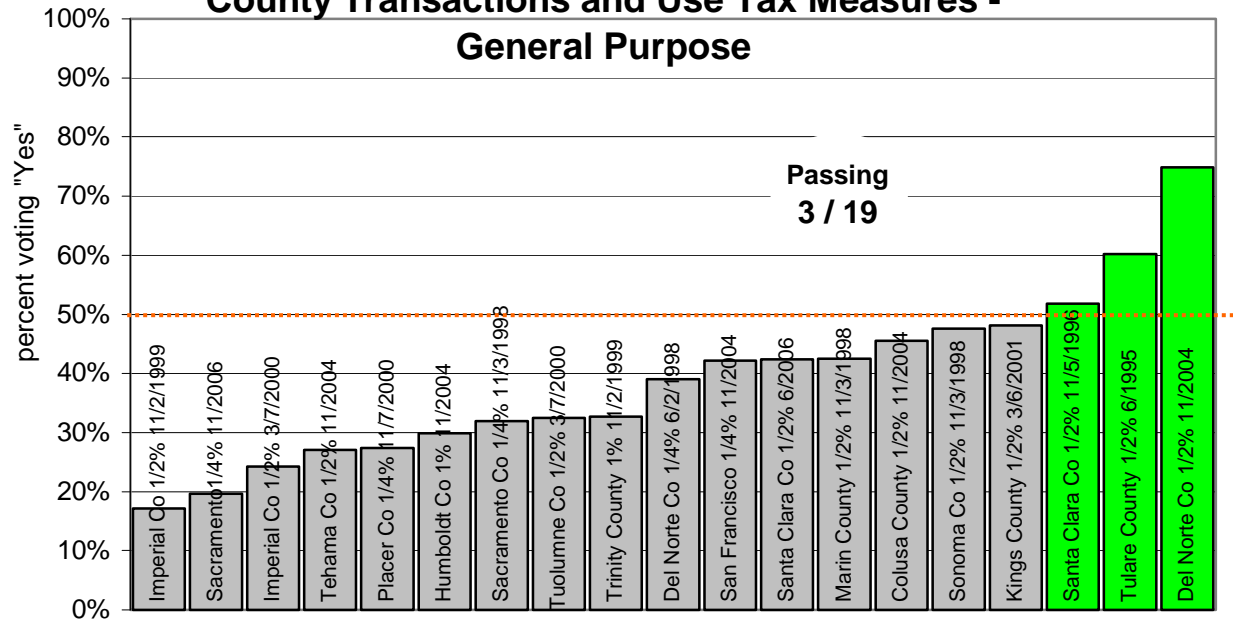
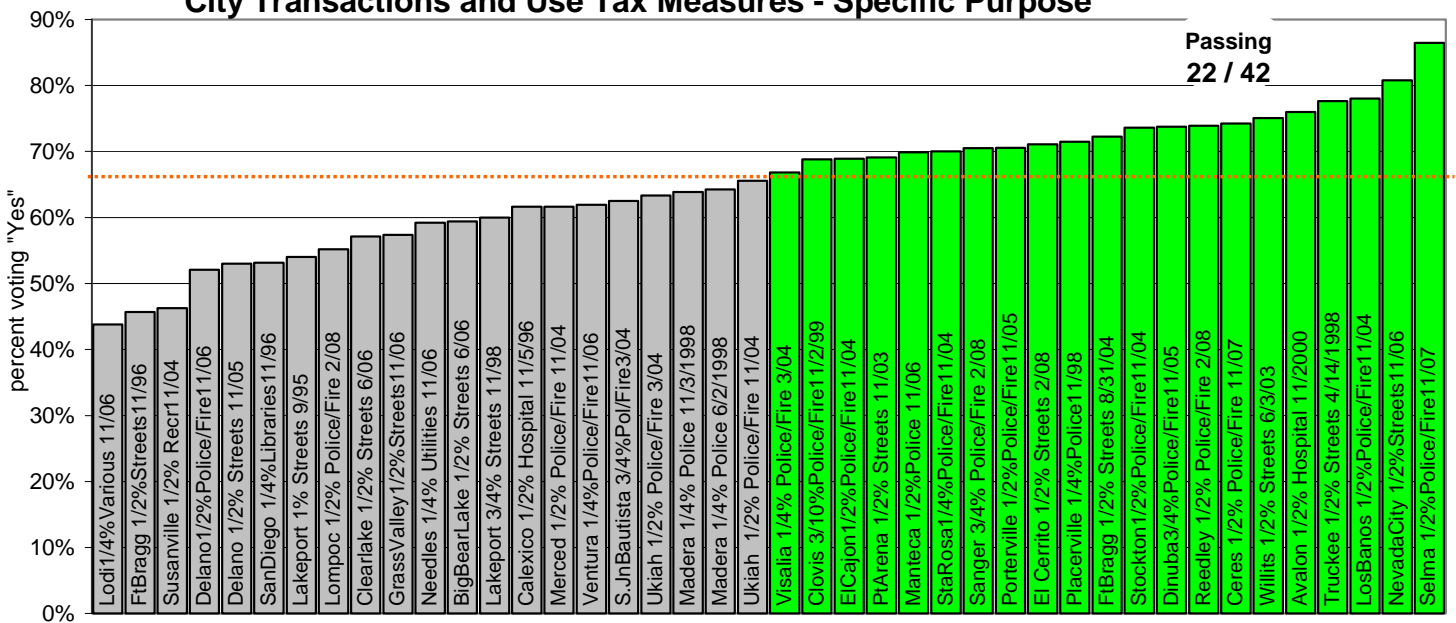


Exhibit 6

City Transactions and Use Tax Measures - Specific Purpose



Since the passage SB566 in 2003, the transactions and use tax, particularly when structured as a majority vote tax for general purposes, has become popular and successful revenue raising tool for cities. In just the last few years, the number of approved city transactions and use taxes has more than tripled. Continuing discussions in municipalities throughout the state indicate that we can expect that number to increase.

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For More Information:

- On the Sales & Use Tax in California: <http://www.californiacityfinance.com/#SALESTAX>
- On local tax measures and election results: <http://www.californiacityfinance.com/#VOTES>
- Current tax rates for cities and counties. California State Board of Equalization. <http://www.boe.ca.gov/cgi-bin/rates.cgi>
- Transactions and Use Tax rates and effective dates. Calif. BOE. <http://www.boe.ca.gov/sutax/pdf/districtratelist.pdf>

APPENDIX ONE

City Transactions & Use Taxes Currently in Effect

City	County	Rate	Effective	Purpose	Authority in State Law	Enabling Legislation
Arroyo Grande		0.50%	4/1/2007	General	Rev & Tax Code § 7285.9	SB566 Scott 2003
Avalon	Los Angeles County	0.50%	10/1/2000	Medical & hospital services	Rev & Tax Code § 7286.25	SB1366 Beverly 1996
Capitola	Santa Cruz County	0.25%	4/1/2005	General	Rev & Tax Code § 7285.9	SB566 Scott 2003
Ceres	Stanislaus County	0.50%	4/1/2008	Police, fire services	Rev & Tax Code § 7285.9	SB566 Scott 2003
Clearlake	Lake County	0.50%	7/1/1995	Police, fire protection	Rev & Tax Code § 7286.45	SB679 M.Thompson 1994
Clovis	Fresno County	0.30%	4/1/2000	Police & fire facilities/equipt	Rev & Tax Code § 7286.48	SB1424 Maddy 1998
Davis	Yolo County	0.50%	4/1/2004	General	Rev & Tax Code § 7290	AB7 H.Thomson 2002
Del Rey Oaks		1.00%	4/1/2007	General	Rev & Tax Code § 7285.9	SB566 Scott 2003
Delano	Kern County	1.00%	4/1/2008	General	Rev & Tax Code § 7285.9	SB566 Scott 2003
Dinuba	Tulare County	0.75%	4/1/2006	Police, fire services	Rev & Tax Code § 7285.91	SB566 Scott 2003
El Cajon	San Diego County	0.50%	4/1/2005	Public safety facilities	Rev & Tax Code § 7285.91	SB566 Scott 2003
El Cerrito	Contra Costa County	0.50%	7/1/2008	Streets	Rev & Tax Code § 7285.9	SB566 Scott 2003
Farmersville	Tulare County	0.50%	4/1/2005	General	Rev & Tax Code § 7285.9	SB566 Scott 2003
Fort Bragg	Mendocino County	0.50%	1/1/2005	Road constr & mntc	Rev & Tax Code § 7285.91	SB566 Scott 2003
Grover Beach		0.50%	4/1/2007	General	Rev & Tax Code § 7285.9	SB566 Scott 2003
Hollister	San Benito County	1.00%	4/1/2008	General	Rev & Tax Code § 7285.9	SB566 Scott 2003
Inglewood		0.50%	4/1/2007	General	Rev & Tax Code § 7285.9	SB566 Scott 2003
Laguna Beach	Orange County	0.50%	7/1/2006	General	Rev & Tax Code § 7285.9	SB566 Scott 2003
Lakeport	Lake County	0.50%	4/1/2005	General	Rev & Tax Code § 7285.9	SB566 Scott 2003
Los Banos	Merced County	0.50%	4/1/2005	Police, fire services	Rev & Tax Code § 7285.91	SB566 Scott 2003
Manteca		0.50%	4/1/2007	Police, fire services	Rev & Tax Code § 7285.9	SB566 Scott 2003
Merced	Merced County	0.50%	4/1/2006	General	Rev & Tax Code § 7285.9	SB566 Scott 2003
Montclair	San Bernardino County	0.25%	4/1/2005	General	Rev & Tax Code § 7285.9	SB566 Scott 2003
Morro Bay		0.50%	4/1/2007	General	Rev & Tax Code § 7285.9	SB566 Scott 2003
National City	San Diego County	1.00%	10/1/2006	General	Rev & Tax Code § 7285.9	SB566 Scott 2003
Nevada City		0.50%	4/1/2007	Road constr & mntc	Rev & Tax Code § 7285.9	SB566 Scott 2003
Pinole		0.50%	4/1/2007	General	Rev & Tax Code § 7285.9	SB566 Scott 2003
Placerville	El Dorado County	0.25%	4/1/1999	Police services	Rev & Tax Code § 7286.70	SB781 Maddy 1998
Point Arena	Mendocino County	0.50%	4/1/2004	Road constr & mntc	Rev & Tax Code § 7286.24	SB902 Strom-Martin 2002
Porterville	Tulare County	0.50%	4/1/2006	Police, fire services	Rev & Tax Code § 7285.91	SB566 Scott 2003
Reedley	Fresno County	0.50%	7/1/2008	Police, fire services	Rev & Tax Code § 7285.9	SB566 Scott 2003
Richmond	Contra Costa County	0.50%	4/1/2005	General	Rev & Tax Code § 7285.9	SB566 Scott 2003
Salinas	Monterey County	0.50%	4/1/2006	General	Rev & Tax Code § 7285.9	SB566 Scott 2003
San Bernardino		0.25%	4/1/2007	General	Rev & Tax Code § 7285.9	SB566 Scott 2003
San Juan Batista	San Benito County	0.75%	4/1/2005	General	Rev & Tax Code § 7285.9	SB566 Scott 2003
San Luis Obispo		0.50%	4/1/2007	General	Rev & Tax Code § 7285.9	SB566 Scott 2003
San Rafael	Marin County	0.50%	4/1/2006	General	Rev & Tax Code § 7285.9	SB566 Scott 2003
Sand City	Monterey County	0.50%	4/1/2005	General	Rev & Tax Code § 7285.9	SB566 Scott 2003
Sanger	Fresno County	0.75%	7/1/2008	Police, fire services	Rev & Tax Code § 7285.9	SB566 Scott 2003
Santa Cruz	Santa Cruz County	0.50%	4/1/2007	General	Rev & Tax Code § 7285.9	SB566 Scott 2003
Santa Rosa	Sonoma County	0.25%	4/1/2005	Police, fire services	Rev & Tax Code § 7285.91	SB566 Scott 2003
Scotts Valley	Santa Cruz County	0.50%	4/1/2006	General	Rev & Tax Code § 7285.9	SB566 Scott 2003
Seaside	Monterey County	1.00%	7/1/2008	General	Rev & Tax Code § 7285.9	SB566 Scott 2003
Sebastopol	Sonoma County	0.25%	4/1/2005	General	Rev & Tax Code § 7285.9	SB566 Scott 2003
Selma	Fresno County	0.50%	4/1/2008	Police, fire services	Rev & Tax Code § 7285.9	SB566 Scott 2003
Sonora	Tuolumne County	0.50%	1/1/2005	General	Rev & Tax Code § 7285.9	SB566 Scott 2003
South Lake Tahoe	El Dorado County	0.50%	4/1/2005	General	Rev & Tax Code § 7285.9	SB566 Scott 2003
Stockton	San Joaquin County	0.25%	4/1/2005	Police, fire services	Rev & Tax Code § 7285.91	SB566 Scott 2003
Trinidad	Humboldt County	1.00%	10/1/2004	General	Rev & Tax Code § 7285.9	SB566 Scott 2003
Truckee	Nevada County	0.50%	10/1/1998	Road constr & mntc	Rev & Tax Code § 7286.6	SB1105 Leslie 1995
Tulare	Tulare County	0.50%	4/1/2006	General	Rev & Tax Code § 7285.9	SB566 Scott 2003
Ukiah	Mendocino County	0.50%	10/1/2005	General	Rev & Tax Code § 7285.9	SB566 Scott 2003
Visalia	Tulare County	0.25%	7/1/2004	General	Rev & Tax Code § 7285.9	SB566 Scott 2003
Vista		0.50%	4/1/2007	General	Rev & Tax Code § 7285.9	SB566 Scott 2003
Watsonville		0.25%	4/1/2007	General	Rev & Tax Code § 7285.9	SB566 Scott 2003
West Sacramento	Yolo County	0.50%	4/1/2003	General	Rev & Tax Code § 7286.75	AB863 H.Thomson 2001
Williams		0.50%	4/1/2007	General	Rev & Tax Code § 7285.9	SB566 Scott 2003
Willits	Mendocino County	0.50%	10/1/2003	Road constr & mntc	Rev & Tax Code § 7286.24	SB902 Strom-Martin 2002
Woodland	Yolo County	0.50%	10/1/2006	General	Rev & Tax Code § 7286.52	AB1472 H.Thomson 1997